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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000599

SIPDIS

STATE FOR SCA/CEN, EEB  
TREASURY FOR LANIER/BAKER

E.O. 12958: DECL: 05/08/2018

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SUBJECT: TURKMENISTAN'S BLACK MARKET IN EXCHANGE -- HOW IT WORKS

Classified By: CHARGE SYLVIA REED CURRAN FOR REASONS 1.4 (B) AND (D).

¶1. (C) SUMMARY: Officials from various of Turkmenistan's ministries and state enterprises have profited from a system, run by the Central Bank, where money from dollar denominated "special" accounts were originally valued at the official rate and sold at the higher black market or "unofficial rate." Certain officials in these ministries and enterprises then pocketed the difference, minus cuts to the numerous parties that made the system possible. Although the unified exchange rate decreases the profit margin, the system is still in place, and ready to provide profits from any difference between the official rate and the black market rate for the overvalued manat. END SUMMARY.

¶2. (C) During the years of the dual exchange rate system and throughout the unification process, a robust and readily accessible black market for exchange has thrived. A senior LE staff member (please protect) with years of experience in Turkmenistan's banking industry revealed the details of the black market system to EmbOff. According to the LE Staff member, the black market system, while technically illegal, involves a wide swath of the country's power elite and security forces. The absurd exchange rate levels set for the previous official rate meant that all locals, from day laborers to the uber-rich, have exchanged money almost exclusively in the city's hundreds of informal exchange points, often under the close protection of uniformed policemen and always under the control of the Central Bank.

THE BROAD STROKES

¶3. (C) Turkmenistan's various ministries and government enterprises are required to keep the majority of their operating budgets and proceeds of operations in accounts at the Central Bank. Because of Turkmenistan's vast hydrocarbon exports, the Central Bank is flush with dollars. According to the LE Staff member, certain dollar denominated accounts are identified as "special" by mutual agreement between the depositing party (the Ministry or enterprise) and the bank. These "special" accounts are the source of Turkmenistan's broad black market for exchange.

¶4. (C) Using the example of a 100,000 U.S. dollar account under the pre-January 2008 exchange rate system, the \$100,000 are worth either 520,000,000 manat at the (former) official rate of 5,200 manat per dollar or 2,400,000,000 manat at the (former) black market or "unofficial" rate of 24,000 manat per dollar. Thus, \$100,000 removed from the identified account could be replaced with a 520,000,000 manat payment and the difference passed on to the numerous parties who made the system possible.

#### THE DETAILS

¶5. (C) Central Bank officials distributed the dollars in the identified accounts to high-level officials of the ministry or enterprise holding the original account. These high-level government officials then divided the funds into smaller sums and passed them on to facilitators who each run sophisticated exchange operations. The operations run exactly as legitimate businesses hiring and retaining staff, providing facilities and transportation, and returning profit to their investors. Additionally, they are obliged to pay for &protection<sup>8</sup>. Those in charge of supposedly stopping the illicit activity also receive their &taste.<sup>8</sup>

¶6. (C) Because the majority of Turkmenistan's population is paid in manat, but requires and wants U.S. dollars, most Turkmen readily purchase those dollars from their local black market exchange office at the higher (and more reasonable) black market rate. While many people also use the black market dealers to exchange dollars for manat, the flow is

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mostly the other way. The dollars, gobbled-up at the higher rate, result in massive profits for everyone involved, not least the Central Bank and ministry officials who provided access to the funds.

#### A BRAVE NEW WORLD?

¶7. (C) COMMENT: While the unification process, financial panic and the government's new effort to limit exchange, has changed the rules of the game, the essential elements are still in place. The new unified rate of 14,250 manat per dollar still grossly overvalues the manat. Turkmenistan nationals still require U.S. dollars to transact business and still save in U.S. dollars. Many of the officials and &facilitators<sup>8</sup> who have profited handsomely over the years are still in place and operating. Thus far, there has been little variance between the new unified rate available in banks and the black market rate. The question remains, however, how long can the government maintain control when so many are willing to pay more than 14,250 manat per dollar and so many stand to profit by meeting that demand. END COMMENT.

CURRAN